

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Leslye Corsiglia

**SUBJECT:** SEE BELOW

**DATE:** March 13, 2014

Approved



Date

3/14/14

## SUPPLEMENTAL

**SUBJECT: THE USE OF UNDERUTILIZED HOTELS/MOTELS TO HOUSE THE HOMELESS**

## REASON FOR SUPPLEMENTAL

This Supplemental Memorandum clarifies staff recommendations for City Council consideration, adds details on the proposed pilot master-leasing program, and responds to questions raised at the Community and Economic Development Committee (CEDC) meeting held on February 24, 2014.

## RECOMMENDATION

As recommended by the Community and Economic Development Committee on February 24, 2014, it is recommended that the City Council direct staff to:

1. Develop a pilot master-leasing program for motels/hotels for the homeless; and
2. Return to City Council with necessary changes to the Municipal Code to implement such a program.

## BACKGROUND

Despite significant efforts on behalf of the City and our partners, the number of homeless individuals in San José has increased. According to the 2013 homeless count, 18% more homeless people were found living in San José than were found during the 2011 homeless count.

One of the biggest obstacles to housing the homeless is finding affordable housing opportunities. Rents in San José and surrounding communities have risen, and the vacancy rate remains low.

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Added to this is the challenge the homeless face when competing for rental housing openings due to credit issues, eviction histories, and a lack of stable income.

While increasing the supply of new affordable housing is the ultimate answer, it can take years to finance and construct new housing opportunities. To that end, Housing Department staff has been working to identify housing options that can be more readily available. The City Council directed staff to look at hotels and motels as a potential housing option. One of the options staff has explored is master leasing rooms in partially-vacant hotels or motels.

## **ANALYSIS**

Many cities have successfully used hotels and motels for short-term stays for the homeless by providing rental vouchers. While homeless individuals come and go, the use of a certain number of rooms is static. On the other end of the spectrum, San Francisco, has developed a long-term master leasing program with 15- to 40- year terms that rehabilitates hotels and motels and then closely controls conditions of the lease. This program requires an extensive budget to perform gut rehabilitation and cover the cost of rents for the full term of the lease.

Housing Department staff is proposing a pilot master-leasing program that focuses on short- to medium-term leases. This approach gives some structure to the program and more control over outcomes than a shorter and more ad hoc approach, but stops short of long-term master leases like San Francisco's, which require a large budget.

### **Pilot Program**

The recommended the pilot program would require:

1. Identification of likely hotels or motels willing to enter into master lease agreements for up to 49% of their rooms;
2. City award to a nonprofit to act as master leasing agent with hotel and motel property owners and to oversee individual tenants' leases and service provision to tenants;
3. Application by the nonprofit for Conditional Use Permits of up to five years for each property to allow the supportive housing use;
4. Funding by the City or another public entity of rental vouchers to pay for rents.

The target population for the program would be:

1. Homeless people who have a housing subsidy who need more time to find an affordable apartment; and
2. Homeless people with a high potential for economic self-sufficiency.

As a result of ongoing interdepartmental discussions and in response to questions and comments by the CEDC at its February 24, 2014 meeting, below are additional details on the proposed pilot master-leasing program.

The components of the master-lease program are:

1. The site will be located near transit.
2. Hotels/Motels with rooms needing only cosmetic improvements will be selected to participate in the pilot. If this is the case, no building permits would be required to be issued. The program expressly does not contemplate bringing the hotels or rooms up to current building code standards for new apartment buildings, which would be cost-prohibitive.
3. A nonprofit service provider, approved by the City, will be assigned to each participating hotel to manage the master lease and provide property management services. Property management includes managing tenant leases, ensuring lease compliance, and ensuring the upkeep and safety of the master-leased hotels.
4. Case management will be provided to the homeless individual or family.
5. To qualify for the program, potential tenants must be homeless and have a voucher or coupon or a qualifying income.
6. Residents will contribute an amount based on their income.
7. Residents will be required to execute a lease and follow all lease rules.
8. The rooms will be inspected annually to ensure the rooms are maintained and kept in good condition.
9. The owner or the agent of the owner – which could be the nonprofit – must obtain a Conditional Use Permit.
10. The length of the master-lease is up to five years.

In considering the level of review required under the pilot program, staff looked at three options—by right, a Special Use Permit, or a Conditional Use Permit (CUP). Housing Department staff recommends that a CUP be required. While CUPs have a higher level of review, slightly higher cost, and possibly a longer timeframe to obtain, a CUP will provide more opportunity for public input, and any appeals would be heard by the City Council

The staff also considered several options regarding the term of the master lease and recommends that the term of the CUP be for up to five years, with the actual duration of a permit determined by the applicant at the time of permit application. The use permit applicant would be the City-selected nonprofit, acting as the owner's agent for purposes of applying for the use permit. As the nonprofit would understand the available funding, it would have the flexibility to request a use permit term that meets its budget.

Individuals' stays in a particular property are not expected to be as long as the term of a master lease. Rather, the program's focus on serving individuals with greater likelihood to exit quickly from the program will be targeted – from one month to up to one year. To be successful, the program will need to be flexible to serve each individual's unique situation; regardless the lease term will not exceed the term of the master lease. The Municipal Code limits hotels and motels to commercial use, which is generally understood to mean a stay of no more than 29 days.

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### ***Workplan***

In order to implement the pilot program, several important actions must take place, most significantly updates to the Municipal Code. Following are the steps the staff needs to take:

- Bring forward an update of applicable sections of the San Jose Municipal Code to the City Council, including, but not limited to Title 20 of the Zoning Code;
- Complete environmental clearance under the California Environmental Quality Act (CEQA);
- Issue a Request for Proposal (RFP) to identify and enter into a contract with a competent nonprofit organization to administer the master-leasing program.

It is anticipated that these actions would be completed in June or August of 2014. After that time, a selected nonprofit would need to complete the work needed to select a site, apply for a CUP, and begin leasing. Therefore, it is most likely that the program would be in operation in late 2014 or early 2015.

### ***Public Outreach***

The public has several opportunities to weigh in on this program. In addition to the three public CEDC meetings already held on this topic, staff will return with proposed changes to the Municipal Code to enable program implementation. It is anticipated that this action would take place in June or August of 2014.

Additionally, as specific hotels and motels are identified, public hearings will be held for each use permit application, and residents in the noticing radius will receive notifications of the hearings.

Some public comment has already been received about a pilot master leasing program. Community members have expressed a concern that the case studies cited in the Housing Department's September 23, 2013 presentation to the CEDC have already been selected as potential sites for program implementation. It is important to note that the Department conducted these case studies for research purposes only. At this time, staff has not targeted any hotel/motel for this master-lease program, and will follow the public outreach procedures outlined above before moving forward with any project.

### **COORDINATION**

This Memorandum has been coordinated with the Office of the City Attorney and with the Department of Planning, Building and Code Enforcement.

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**CEQA**

Not a Project, File No. PP10-068, General Procedure and Policymaking.

/s/

LESLYE CORSIGLIA

Director of Housing

For questions, please contact Jacky Morales-Ferrand, Assistant Director of Housing, at 408-535-3855.